

Bank of England survey bolsters calls for 2024 rate cuts

The Bank of England is reluctant to endorse the notion of 2024 rate cuts. But its latest survey of CFOs suggests that inflationary pressures continue to ease. We expect easing to begin from the summer, albeit perhaps more gradually than markets currently expect

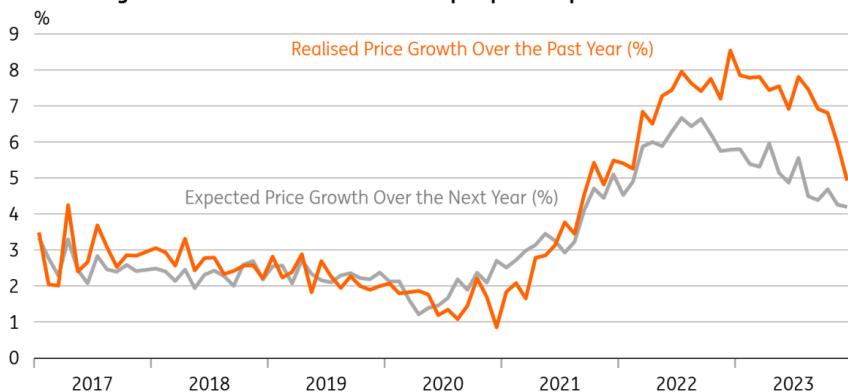


Financial markets are near-enough pricing six rate cuts from the Bank of England this year. Policymakers are highly reticent to endorse that, though the latest data from the Bank's own Decision Maker Panel survey indicates that investors are right to be thinking about a series of cuts this year. The survey of Chief Financial Officers (CFOs) continues to suggest that inflationary pressures are easing noticeably.

Expected price growth among corporates has slipped further to 4.2%, down from a high of almost 7% in mid-2022. BoE hawks would – and have – argued that firms have been consistently revising down expected price growth but up until now, this hasn't translated into less aggressive actual price growth. In other words, firms have been saying one thing and doing another. But that seems to be changing – “realised” price growth among corporates is starting to fall rapidly. The latest reading of 5.9% is down from 7.5% in August.

Expected vs. realised price growth

Bank of England Decision Maker Panel - Output price expectations



Source: Macrobond, Bank of England

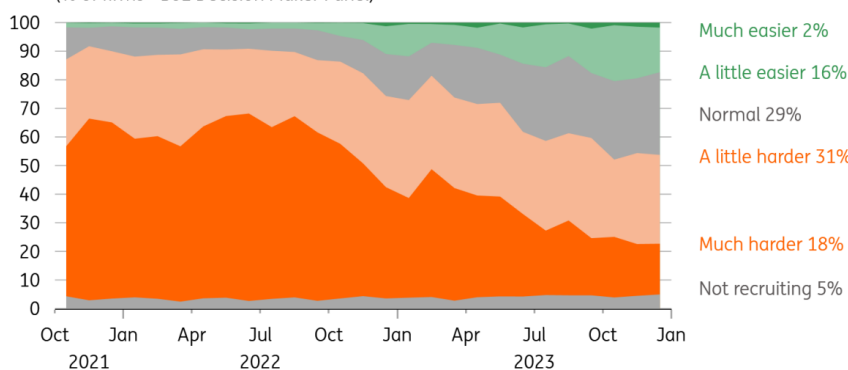
Another way of looking at this, CPI expectations among corporates have also continued to fall in line with actual inflation.

So far, so good. But the issue for the BoE is that wage growth is proving stickier. Expected wage growth over the next year has stabilised above 5%, and realised is still up at 7%. Both have been roughly stable for the best part of nine months now.

That does at least suggest that the official data on private-sector wage growth can continue to fall gradually from its current 7.3% level. And with vacancies falling quickly, and hiring difficulties having eased considerably since 2022, we think this measure of pay growth can reach the 4-5% area by summer.

Recruitment difficulties are easing, according to the BoE survey

Recruitment difficulty, compared to normal
(% of firms - BoE Decision Maker Panel)



Source: Macrobond, Bank of England

But for the time being, wage growth is still too high for the BoE's liking. We also think services inflation will remain sticky around 6% for the next two to three months, before falling more noticeably by the summer.

Markets are pricing the first rate cut from the Bank of England in May, which feels a bit early. We also think when rate cuts do begin – potentially in August – they will be a little more gradual than markets are currently pricing. We expect 100 basis points of cuts this year, though much depends on how quickly services inflation and wage growth turn a corner.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.